

17. AGRICULTURE

Table 17-1. FEDERAL RESOURCES IN SUPPORT OF AGRICULTURE
(In millions of dollars)

Function 350	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	4,206	4,140	4,115	4,014	3,944	3,905	3,914
Mandatory Outlays:							
Existing law	5,023	6,132	8,181	7,605	7,156	6,069	5,866
Proposed legislation			17	43	23	10	13
Credit Activity:							
Direct loan disbursements	6,183	7,074	8,670	8,573	8,294	7,670	7,159
Guaranteed loans	5,082	7,880	8,075	7,988	7,974	7,970	7,969
Tax Expenditures:							
Existing law	320	325	330	345	350	355	360
Proposed legislation		-28	-136	-121	-124	-124	-124

Early in our history, the Federal Government helped improve food production. Today, it aims to do much more for agriculture and its related activities, which account for 16 percent of the Gross Domestic Product. The Government helps our bountiful human, natural, and capital resources work together to produce the highest possible benefit at the lowest cost for Americans and others. Federal programs disseminate economic and agronomic information, ensure the integrity of crops and safety of meat and poultry, and help farmers face risks from weather and unfamiliar export conditions. The results are found in the public welfare that Americans enjoy, free of severe dislocations that can occur when commodity markets are left to take their natural time to correct themselves.

The Federal Government spends about \$10 billion a year for agriculture, but the Agriculture Department's (USDA) \$50 billion a year in other spending includes investments that support farms and farmers' income (noted below and in other chapters). The tax code also offers \$500 million a year in incentives for farmers.

Conditions on the Farm

In the 1980s, record-high Federal price supports, global recession, and the strong dollar led to steep declines in farm exports, market prices, and cropland values, creating the most severe financial crisis in the farm sector since the 1930s. The Government responded with the largest-ever Federal acreage idling program, more market-oriented and lower price supports, and export subsidies to counteract unfair foreign trade practices. At the same time, the demand for food increased around the world.

U.S. agriculture has now recovered. In 1995 and 1996, short supplies of corn and wheat lifted the sector's economic indicators, and agricultural exports hit a record \$60 billion in 1996. Market prices for major crops such as corn and wheat reached their highest levels in recent history; farmer debt-to-asset ratios are low; farm land prices are high; and net farm income rose to record levels in 1996, despite the cyclical downturn in livestock.

Exports are key to future farm incomes. The Nation now exports 30 percent of U.S. farm production, and agriculture produces the greatest balance of payments surplus,

for its share of national income, of any economic sector. The farm sector generally supported the North American Free Trade Agreement and the recent Uruguay Round of the General Agreement on Tariffs and Trade, believing that U.S. agriculture can compete successfully in a world market free of trade barriers and export subsidy distortions.

Federal Farm Programs and Markets

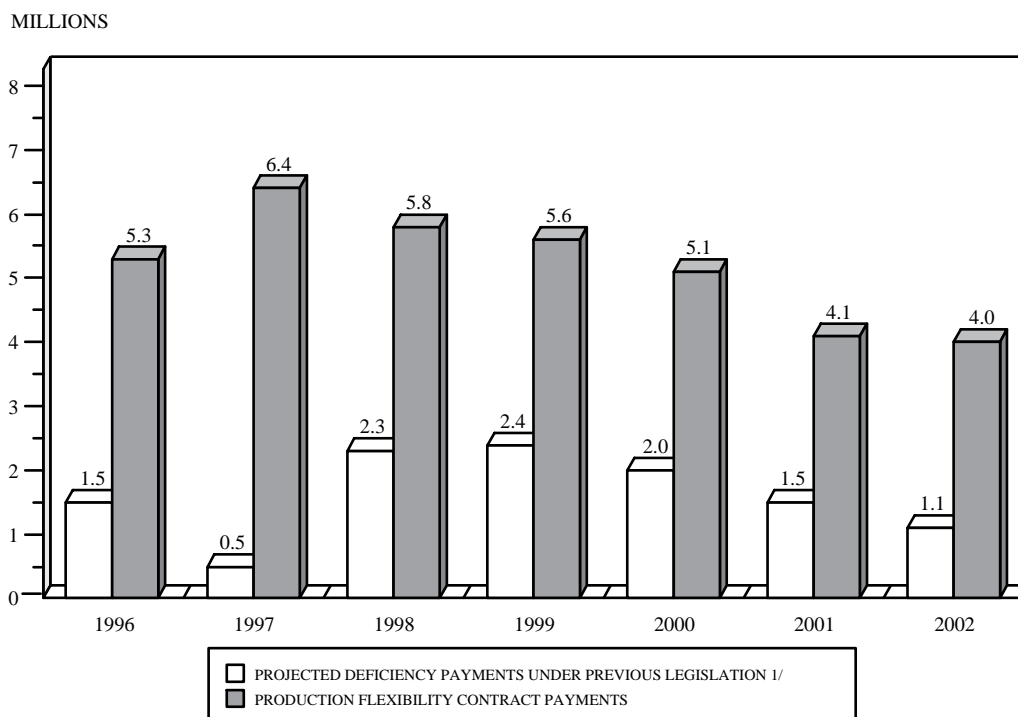
The farm sector can grow when markets send signals to plant crops, buy machines, hire workers, and sell food. The historic 1996 Farm Bill will greatly increase the market's influence in U.S. farm policy.

Known officially as the Federal Agriculture Improvement and Reform Act of 1996, the Farm Bill will significantly alter the basis for planting decisions and Federal income support for most farmers. Under previous laws dating to the 1930s, farmers who reduced plantings when prices were low could get income support payments. These "deficiency"

payments were tied to the gap between market prices and a legislated "target price" for major commodities, such as wheat, corn, cotton, and rice. The program distorted market signals, as farmers planted "for the program." The Farm Bill eliminated most planting restrictions. Further, the Government will provide fixed, but declining payments to eligible farmers for the next seven years, regardless of market prices or production. Thus, the law "decouples" Federal income support from planting decisions and market prices.

Because commodity prices were high in 1996, the fixed payments provided an estimated \$3 billion to \$4 billion more in income transfers than farmers would have received under the old law (see Chart 17-1). Payments in 1997 likely will exceed previous law levels by similar amounts, but the excess will decline in later years. In signing the Farm Bill, the President expressed concern that it did not provide an adequate "safety net" for farm income. As a result, the budget

Chart 17-1. PRODUCTION FLEXIBILITY CONTRACT PAYMENTS EXCEED PROJECTED DEFICIENCY PAYMENTS



proposes to strengthen the safety net, largely in partnership with private sector approaches.

The Farm Bill also uses incentives to encourage farmers to protect the natural resource base of U.S. agriculture. For example, the new \$200 million-a-year Environmental Quality Incentive Program helps farmers address water quality concerns; the new Flood Risk Reduction Program provides incentives to move farming operations from frequently-flooded land; and the revised Conservation Farm Option gives producers incentives to create comprehensive conservation farm plans.

USDA's conservation programs give technical and financial help to farmers and communities. They include the Conservation and Wetlands Reserve Programs, which remove land from farm uses; and the Natural Resources Conservation Service, which provides technical assistance. For more information on conservation, and USDA's investments in forestry and public land management, see Chapter 16, Natural Resources and Environment. USDA programs also help to maintain vital rural communities, as described in Chapter 20, Community and Regional Development.

Risk Management: USDA helps farmers manage their financial risks by providing subsidized crop insurance, delivered mainly through the private sector. On average, farmers pay no premiums for coverage against catastrophic losses, and the Government subsidizes their premiums for additional coverage. USDA pays private companies for all costs associated with administering Federal crop insurance. Over the past three years, an average 80 percent of eligible acres have been insured, with losses averaging \$1.10 for every \$1 in premiums—down from the historical average of \$1.40. Since the Farm Bill ended USDA's traditional price and income support programs, producers now bear the added price risk. In 1996, USDA began to pilot-test to farmers, through the private sector, several products that mitigate revenue risk, along with the traditional coverage for production risk. Initial results indicate that farmers generally want these types of products. Crop insurance costs the Federal Government about \$1.7 billion a year.

Inspection and Market Regulation: A half-billion dollars a year in Federal spending helps secure U.S. cropland from pests and diseases and make U.S. crops more marketable. In addition, USDA's Food Safety and Inspection Service ensures that U.S. meat and poultry do not threaten consumers' health (as described in Chapter 22, Health.) The Animal and Plant Health Inspection Service inspects agricultural products that enter the country; controls and eradicates diseases and infestations; helps control damage to livestock and crops from animals; and monitors plant and animal health and welfare. The Agricultural Marketing Service and the Grain Inspection, Packers, and Stockyards Administration help to market U.S. farm products in domestic and global markets, ensure fair trading practices, and promote a competitive and efficient marketplace.

Economic Research and Statistics: Annual Federal spending of about \$150 million aims to improve U.S. agricultural competitiveness by reporting and analyzing economic information. The Economic Research Service provides economic and other social science information and analysis for decision-making on agriculture, food, natural resources, and rural America. The National Agricultural Statistics Service develops estimates of production, supply, price, and other aspects of the farm economy. In 1998, it will fund the Census of Agriculture, conducted every five years.

Agricultural Research: The Federal Government plays an important role in supporting agricultural research and the enhanced productivity it can foster, and spends over \$1.5 billion a year for that purpose. The Agricultural Research Service is USDA's in-house research agency, addressing a broad range of food, farm, and environmental issues. It puts a high priority on transferring its research findings to the private sector, and in 1998 it expects to submit 70 new patent applications, participate in 75 new Cooperative Research and Development Agreements, license 25 new products, and develop 70 new plant varieties to release to industry for further development and marketing. The Cooperative State Research, Education, and Extension Service provides grants for agricultural, food, and environmental research; higher education; and extension activities. The National Research Ini-

tiative competitive research grant program, launched in 1990 on the recommendation of the National Research Council, works to improve the quality and increase the quantity of USDA's farm, food, and environmental research. The average annual return to publicly-funded agricultural research exceeds 35 percent, according to recent academic estimates.

Agricultural Credit: USDA provides about \$500 million a year in direct loans and over \$2.5 billion in guaranteed loans for farm operating and ownership purposes. Direct loans generally go to beginning or socially disadvantaged farmers. Participants must be unable to secure credit, and the loans carry interest rates at or below the rates on Treasury securities, depending on the farmer's expected income. In addition, the Farm Credit System and "Farmer Mac"—which are Government-Sponsored Enterprises—enhance the supply of farm credit through ties with national and global credit markets. The Farm Credit System (which lends directly to farmers) has recovered strongly from its financial problems of the 1980s, in part through Federal help. Farmer Mac increases the liquidity of commercial banks and the farm credit system by purchasing agricultural loans. In 1996, Congress gave the institution authority to pool loans and additional years to attain required capital standards.

Trade: USDA spends over \$1 billion a year on export activities, including subsidies to U.S. firms facing unfairly-subsidized overseas competitors and loan guarantees to foreign buyers of U.S. farm products. Much of USDA's export promotion, however, comes through other avenues. It helps firms overcome technical requirements, trade laws, and customs that often discourage the smaller, less experienced ones from taking advantage of export opportunities. Also, it shares some of the risk when firms or trade organizations experiment in the export market. USDA helps educate firms about the requirements and process of developing an overseas market. By participating in the Mar-

ket Access Program or USDA-organized trade shows, firms are better placed to export different products to new locations on their own. The programs are working. U.S. firms, especially the smaller ones, are exporting more aggressively, and high-value products now comprise a growing share of export value. Overall, the trade surplus for agriculture in recent decades has grown faster than for any other civilian sector of the economy.

Personnel, Infrastructure, and the Regulatory Burden: USDA administers its many farm programs through 2,500 county offices with over 17,000 staff. The Farm Bill significantly cut USDA's workload, prompting the department to re-examine its staff-intensive field office-based infrastructure. In 1997, USDA will launch three efforts: (1) conduct a study to find ways to operate more efficiently, (2) undertake an Administration initiative to scrap duplicative and unnecessary regulations and paperwork, and (3) review and upgrade its computer systems to streamline its collection of information from farmers and better disseminate information across USDA agencies.

Tax Incentives

Farmers can deduct certain costs in the year they incur them, even for inventories or for items that provide future benefits and, thus, normally would be deducted over time. In addition, solvent farmers do not have to recognize the forgiveness of their farm debt as income. And farmers can pay lower, capital gains rates on their gains from selling certain assets, including unharvested crops. Under Federal estate taxes, farmers benefit because their land is valued based on its current use as farmland—not its market potential for development—and they can pay estate taxes in installments. Finally, feedgrain growers receive indirect benefits from the tax subsidy for ethanol production, which boosts the market price for corn.